

Message Text

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ORIGIN AF-06

INFO OCT-01 ISO-00 L-03 SS-15 EB-07 TRSE-00 FEA-01 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01

H-02 INR-07 INT-05 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 STR-04 /086 R

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E:RMPOATS

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S/S:REWOODS

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R 311847Z JAN 76

FM SECSTATE WASHDC

TO AMEMBASSY LAGOS

C O N F I D E N T I A L STATE 024915

E.O. 11652: GDS

TAGS: ENRG, NI

SUBJECT: GULF OIL IN NIGERIA

REF: LAGOS 0985

SUMMARY: GULF OIL EXECUTIVES DISCUSSED NIGERIA WITH
DEPARTMENT ON JANUARY 29. THEY THINK MPLA HAS NOT WARMED
TO IDEA OF USING FMG AS TRUSTEE FOR ANGOLAN PAYMENTS.
ALTHOUGH TROUBLED BY LOW PROFIT MARGIN IN FIRST QUARTER,
GULF HAS NOT RAISED THIS ISSUE WITH FMG. MEANWHILE, FMG
HAS GRANTED GULF REQUEST FOR 150,000 BARRELS PER DAY OF
BUYBACK OIL.

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1. GULF OIL COMPANY REPRESENTATIVES INCLUDING GULF ENERGY AND MINERALS (GEM) PRESIDENT MELVIN HILL AND VP FOR INTERNATIONAL CONCESSION AGREEMENTS HOWARD HANSEN VISITED AF JANUARY 29 TO TALK ABOUT RECENT MEETINGS WITH MPLA AND FMG IN LAGOS. THEIR ACCOUNT PARALLELED VERSION OBTAINED BY EMBASSY FROM GULF NIGERIA (GOCON) MANAGING DIRECTOR (REFTEL). THEY EMPHASIZED THAT FMG DID NOT THREATEN GULF IN ANY WAY. IN PRIVATE MEETING WITH FMG, CHIEF OF STAFF OBASANJO CONFIRMED THAT FMG WILLING ACT AS TRUSTEE FOR GULF PAYMENT FOR CABINDAN OIL, BUT HE ALSO APPEARED FOR FIRST TIME TO REALIZE COMPLEXITY OF SUCH A ROLE AND FACT THAT FMG WOULD THEN HAVE TO BEAR BURDEN OF RIVAL CLAIMS FROM THE VARIOUS ANGOLAN FACTIONS.

2. ON JANUARY 28, GULF RECEIVED BID FROM MPLA TO REOPEN TALKS IN LUANDA AND REPLIED BY ASKING MPLA FOR CLARIFICATION OF FMG ROLE. COPIES OF BOTH MESSAGES SENT OBASANJO. GULF'S TENTATIVE READING IS THAT MPLA HAS CONCLUDED THAT FMG TRUSTEESHIP IS NOT DESIRABLE ALTERNATIVE AND WILL NOW PURSUE DIFFERENT TACT.

3. HILL, HANSEN, AND NESTOR ORTIZ (GULF WASHINGTON REP) THEN VISITED UNDER SECRETARY ROBINSON FOR FIRST OF SEVERAL MEETINGS ON NIGERIA WHICH HE WILL HAVE WITH U.S. OIL COMPANIES IN PREPARATION FOR HIS VISIT WEEK OF FEBRUARY 22-27. THEY SAID FMG APPROVED GULF'S REQUEST FOR 150,000 B/D OF BUYBACK OIL IN LIEU 100,000 B/D GRANTED EARLIER. (ALTHOUGH THIS HAPPENED SHORTLY AFTER THE LAGOS MEETING WITH MPLA, THEY DO NOT BELIEVE THAT THE TWO EVENTS ARE CONNECTED.) FMG WOULD HAVE TO INCREASE GULF'S MAXIMUM ALLOWABLE PRODUCTION RATE FROM THE PRESENT 280,000 B/D TO AT LEAST 330,000 B/D IF THE 150,000 B/D AND SOME THIRD-PARTY SALES ALREADY NOTIFIED BY NNOC WERE TO COME ENTIRELY FROM GULF PRODUCTION. ALTERNATIVELY FMG MIGHT ASK GULF TO LIFT PORTION OF ITS 150,000 B/D FROM SHELL-BP TERMINAL AT FORCADOS.

4. GULF CLAIMS THAT ITS PROFIT IN FIRST QUARTER IS \$.28 PER BARREL ASSUMING 45 PERCENT OF TOTAL OFFTAKE IS EQUITY OIL AND 55 PERCENT IS BUYBACK OIL. AVERAGE PROFIT
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WOULD BE SOMEWHAT HIGHER IF PRODUCTION WERE INCREASED AND BUYBACK OIL AMOUNTED TO LESS THAN 55 PERCENT OF TOTAL OFFTAKE, AND IT WOULD BE LOWER IF BUYBACK OIL EXCEEDS 55 PERCENT. GULF INSISTS THAT SUCH PROFITS TOO LOW TO JUSTIFY NEW INVESTMENT REQUIRED TO SUSTAIN PRODUCTIVE CAPACITY, BUT COMPANY HAS NOT YET RAISED THIS ISSUE WITH FMG, EVEN DURING COURTESY CALL HILL AND HANSEN PAID ON DIRECTOR OF PETROELUM RESOURCES MARINHO WHEN THEY WERE IN LAGOS.

THE GULF EXECUTIVES SPECULATED THAT THIS QUARTER'S PROFIT SQUEEZE RESULTS FROM INFLUENCE OF OPEC DOGMAS ON CERTAIN OFFICIALS IN FMG. THEY THOUGHT THAT MARINHO AND PERHAPS OTHERS KNOW THAT FMG SELF-INTEREST LIES IN DIFFERENT DIRECTION, BUT THEY ARE STILL UNDER THUMB OF OPEC SEC GEN FEYIDE AND TOO INSECURE IN THEIR JOBS TO ASSERT THEIR OWN CONVICTIONS.

5. IN ANSWER TO A QUESTION FROM MR. ROBINSON, THE GULF EXECUTIVES SAID THAT WITHOUT SUBSTANTIAL NEW INVESTMENT, GOCON HAS INSTALLED CAPACITY WHICH COULD SUSTAIN PRODUCTION RATE OF 300,000 B/D FOR SOME TIME OR TO PRODUCE 400,000 B/D FOR THREE YEARS. WITH SUBSTANTIAL NEW

INVESTMENT, 400,000 B/D RATE COULD BE SUSTAINED FOR SOME TIME. THEY SUPPOSED THAT THE OTHER PRODUCING COMPANIES IN NIGERIA FACED SIMILAR CIRCUMSTANCES.

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